

Top Secret 219

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NATIONAL INTELLIGENCE DAILY CABLE

Wednesday 22 February 1978 CG NIDC 78/043C

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National Intelligence Daily Cable for Wednesday, 22 February 1978.

The NID Cable is for the purpose of informing senior US officials.

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EGYPT-CYPRUS: Diplomacy

25X1 [] The Cypriot Government seems anxious to limit the damage to relations with Egypt caused by the incidents at Larnaca Airport last weekend. Egypt is delaying possible further action--including a full diplomatic break--until it sees how Cyprus intends to deal with the two captured terrorists, now slated to be given a preliminary hearing on Monday. Press reports from Iraq on preparations for a show-trial of Egyptian President Sadat for "treason to the Arab cause" will probably deepen Sadat's belief that a Palestinian group based in Iraq was responsible for the terrorist action and that it intends additional operations against Egyptians.

25X1 [] Both Egypt and Cyprus are publicly attempting to justify their handling of the terrorist operation. Cypriot President Kyprianou, however, called on Sadat yesterday to calm the atmosphere in Egypt. The Cypriot President expressed confidence that relations between the two countries would be restored and said he would be willing to meet with Sadat. Egypt has in the past been a strong supporter of the Greek Cypriots in their dispute with Turkey.

25X1 [] Greek Prime Minister Caramanlis yesterday offered to mediate the Egyptian-Cypriot differences. Egyptian officials continue to insist publicly that the Cypriot Government knew in advance of the planned commando operation and gave permission for the Egyptian plane to land.

25X1 [] Egypt's ultimate attitude will be determined by the disposition of the two terrorists. Cairo is justifying its commando operation partly on the assertion that the Cypriots were about to release the terrorists in exchange for the hostages.

25X1 [] The US Embassy in Nicosia reports that Cypriot officials in fact did promise the terrorists free passage, passports, and money in exchange for release of the hostages and the aircraft. The Embassy surmises that the Egyptians learned of the arrangements and ordered an attack to block the terrorists' escape.

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USSR-LIBYA: Jallud in Moscow

The visit to Moscow of Libyan leader Qadhafi's deputy, Major Adb al-Salam Jallud, produced no significant bilateral agreements. The communique winding up the 14-17 February visit, however, denounced Egyptian President Sadat's "capitulatory policy" in the Middle East, which the communique said could complicate current Soviet efforts to establish a "constructive dialogue" with Egypt.

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The Egyptians will certainly not be pleased with either the language of the communique or the fact that Soviet Premier Kosygin, in his dinner speech during the Jallud visit, also referred to Sadat's "capitulatory" policy. They also will note that at a Kremlin dinner for Asad last night, President Brezhnev blasted "the Egyptian leadership" for "embarking on the road of separate deals with Israel," claiming that Cairo had begun a unilateral surrender of "one all-Arab position after another." Brezhnev asked rhetorically if the time had not come to stop "unprincipled political maneuvers" in the Middle East and to return the negotiating process to the channel afforded by the Geneva peace conference.

During the visit, Jallud met with Brezhnev, as well as with Kosygin and high-level Soviet economic and defense officials. He apparently briefed Brezhnev on the Algiers summit of 2-4 February, describing the measures he said had been taken to counteract Egyptian policy. Reports of the Algiers conference have indicated that Libya will finance Syrian purchases of Soviet arms.

The communique glossed over Soviet-Libyan differences on an Arab-Israeli peace settlement. It emphasized that peace can only come to the Middle East with the release of all the occupied Arab lands, which the Libyans interpret as including all of Israel, and the Soviets interpret as Israel's return to its 1967 borders.

The communique indicated Soviet-Libyan agreement on African matters, calling for a settlement of the conflict in

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the Horn of Africa on the basis of mutual respect and territorial integrity and citing support for the struggle being waged by the peoples of Zimbabwe, Namibia, and South Africa "for independence, freedom, and equality."

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[] The Soviet-Libyan economic protocol, signed on 18 February, called for the strengthening of relations in the fields of metallurgy, power, oil and gas industries, mining, and agriculture. []

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OPEC: No Price Increase This year

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[] Saudi Arabia and Iran have ruled out any increase in OPEC's crude oil prices this year. Recent public statements by Iranian Prime Minister Amouzegar and Saudi Oil Minister Yamani strongly reaffirm support for continuing the present freeze through the end of 1978.

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[] Amouzegar cited the soft world demand for oil and the lagging economic recovery of Western Europe as key factors behind Iran's current price position. Yamani said he expects the slack market to produce some further price discounting by OPEC members trying to maintain their individual market shares. Preliminary data for January indicates that OPEC oil output fell steeply despite price reductions for some kinds of crude.

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[] Their position is a highly unpopular one in OPEC, where there is strong backing for a midyear price increase. The next scheduled ministerial meeting in June seems to be shaping up as a replay of the meeting in Caracas in December, when lack of agreement on prices resulted in a de facto freeze.

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[] Both ministers are alerting consumers to expect oil price increases to resume next year. Iran believes that the current softness in demand is temporary and that market pressure for higher prices will begin to mount later this year. Amouzegar favors gradual annual price increases beginning next year. He expresses the view that a further freeze by OPEC would lead to a precipitous price increase induced by market forces.

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[] Apart from the implications for the international economy, the price freeze during 1978 will affect OPEC members

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in several ways. The real price of oil will continue to decline; by the end of this year it will have fallen an estimated 10 percent since mid-1977, when the last OPEC price increase took place. This alone will provide cartel members with a strong inducement to begin reversing the trend in 1979.

25X1 [] OPEC's current account surplus will decline this year, as it did in 1975. At a projected level of \$36 billion in 1978, it will be half as large as the record 1974 surplus. Saudi Arabia's current account surplus will fall by about \$5 billion--to \$16 billion.

25X1 [] The rest of the Persian Gulf states and Libya will run healthy surpluses. Indonesia will maintain a small surplus, while Venezuela's current account will shift from a \$1 billion surplus in 1977 to a \$500 million deficit. Algeria, Ecuador, Gabon, and Nigeria each will run deficits in the \$500 million to \$1 billion range this year. []

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USSR-ITALY: Less Natural Gas

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[REDACTED] //The Soviets cited increased domestic gas consumption and the needs of Eastern Europe as reasons for not meeting their 1978 obligation to Italy. Another possible factor--but one not mentioned by Moscow--is the absolute decline in output last year of the gas fields located in the Ukraine. These fields, along with those in Central Asia, have been the major source of gas for export to the West and to Eastern Europe.//

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[REDACTED] //Italy is not the first Western country to be notified of cutbacks in Soviet natural gas deliveries. In December 1977, Moscow is said to have told Austria's state-owned oil firm that deliveries in 1978 were to be reduced by 30 percent. The Soviets offered, however, to make up the shortfall in 1979. Presumably, gas deliveries can be increased in 1979 upon completion of the Orenburg gas pipeline system later this year.//

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[REDACTED] The reported cutbacks in 1978 gas deliveries run counter to Moscow's goal of pushing hard-currency exports. In the case of Italy, it will mean a loss of \$60 million--equivalent to roughly 4 percent of Soviet exports to Italy in 1977. More important, Moscow's failure to meet its delivery commitment could cause Western countries to be less willing to enter into long-term contracts with the USSR. The Soviets need such agreements to ensure a stable source of hard currency to help cover further import requirements and to meet debt-service payments. [REDACTED]

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USSR: Diesel Truck Production

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[REDACTED] The production of heavy-duty Soviet diesel trucks at Kama, the world's largest truck plant, began in earnest last year, according to recent Soviet press releases.

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[] In 1977, Kama produced 22,000 trucks. Current plans call for the production of 40,000 trucks this year, 110,000 in 1980, and full-capacity production of 150,000 trucks and 250,000 diesel engines in 1983. If this schedule is to be met, the Soviets will have to overcome delays in the installation of production equipment, avoid disruptive breakdowns in equipment caused by improper use and maintenance, and expedite delivery of vendor-supplied parts for final assembly.

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[] The Kama trucks are very important for the Soviet economy. The 8-ton trucks will help solve the shortage of trucks of greater than 5-ton hauling capacity; such trucks currently make up about 8 percent of the Soviet truck inventory. Soviet economists calculate that 31 percent of the inventory is needed to be in this size class.

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[] Use of the more fuel-efficient Kama trucks for long-distance hauling should yield important savings in fuel consumption. Also, the Kama truck, with its 6-ton axle load limitation, will be able to operate over most of the Soviet road network as well as in permafrost and desert areas. This is an important advantage because only 22 percent of Soviet roads are hard-paved. []

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BRIEFS

Israel

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[] The US Embassy in Israel reports continuing construction activity at two Israeli settlement sites in the Gaza Strip. Construction appears to have been halted, however, at three so-called agricultural observation posts there.

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[] The Embassy comments that Defense Minister Weizman's decision late last month to freeze ground preparation for settlements apparently related only to the agricultural observation posts. The Embassy also notes that the Israelis appear to have assigned high priority to the completion of the projects in the Gaza Strip. []

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